

# RETIREE NEWS – FALL 2003

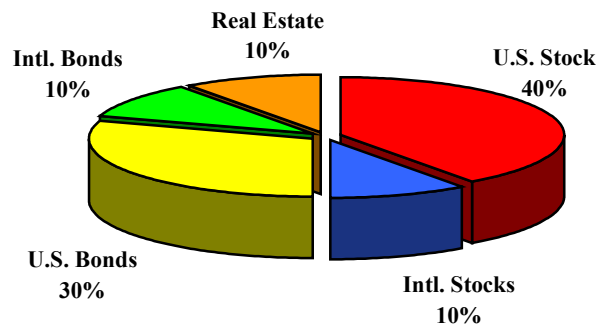
## PERS' BOARD CHANGES INVESTMENT ASSUMPTIONS AND ASSET ALLOCATION

Annually, the Retirement Board reviews PERS' investment strategy to ensure it continues to support the long-term goal of funding the System's financial obligations. This review begins with an analysis of expected long-term returns from the stock, bond and real estate markets. Those expectations are combined with PERS' asset allocation strategy (the mix of stocks, bonds and real estate), to determine if the strategy continues to offer a reasonable opportunity to meet our return and risk objectives.

As a result of this year's review, the Board reduced PERS' inflation assumption, as well as expectations for long-term returns from the stock, bond and real estate markets. The catalysts for lower return expectations are twofold.

First, a sustained period of low inflation is expected in the future. In this type of environment, the total return on investments is expected to be lower when compared to periods of higher or declining inflation. Second, U.S. interest rates are at historic lows. With bonds paying lower interest income, it will be more difficult to replicate the high returns bonds have generated the last twenty years.

To ensure the portfolio maintains a reasonable probability of meeting our 8% actuarial objective, the Board shifted 5% of assets from U.S. bonds to U.S. stocks. Our real estate allocation was also combined with a small allocation to private equity or venture capital investments. Overall, the new mix is statistically "efficient," meaning it maximizes return given its level of risk. PERS' new asset allocation policy is reflected below.



This strategy was implemented in October 2003, and we believe with these changes, PERS' investment program continues to be well positioned to meet its long-term financial objectives.

On another note, one of PERS' international stock managers, Putnam Investments, has recently been in the news as certain employees have been accused of improper mutual fund trading. When these allegations were announced, we halted Putnam's authority to buy or sell stocks for Nevada PERS. Subsequently, a special meeting was scheduled and the Retirement Board terminated the relationship. Due to our bank custody structure, the mutual fund trading did not have a direct financial impact on PERS' assets. A primary goal of our administration will continue to be safeguarding the System's assets.

## THE CONSUMER PRICE INDEX AND HOW IT EFFECTS YOUR POST RETIREMENT INCREASES

During the 1983 legislative session, the Nevada Legislature adopted a law that provided for funded post-retirement increases paid for with the active employee contribution rate. This legislation established a percentage increase to be granted after a certain number of years in retirement. In addition, the law limited these increases so they could not exceed the average of the Consumer Price Index (CPI) over the proceeding three years. Under this rule, if the percentage of post-retirement increase was greater than the CPI average, then the post-retirement increase was reduced to the CPI average. This provision is known as the CPI cap.

In 1995, the Legislature, recognizing the insidious nature of inflation, enacted a change to the CPI cap providing that it could be measured against inflation for the retirees' entire retirement period. This enabled PERS to compare benefit increases for the entire period of benefit payments to the changes to the CPI over the same period. Under this provision, the post-retirement increase is only capped if the increase in lifetime benefits is more than the increase in the total CPI for the retiree's retirement period.

Below is an example of how PERS determines if a retiree's benefit payment over the period of the benefit has increased more than CPI for the same period. This calculation assumes that the retiree has been retired since September 1983 and would be at the 5.0% post-retirement increase level.

Current CPI	185.2%
- Beginning CPI	<u>101.0%</u>
	84.2%

To determine if the total change to the benefit exceeds the difference in the CPI we must divide the total change to the benefit by the original benefit. This shows the percentage that the benefit has changed. This percentage is then compared to the percentage difference in the CPI.

Granted Post Retirement Increases	\$1,000.00
÷ Original Benefit:	<u>\$ 900.00</u>
	111.11%

In the above example, the percentage of change over the lifetime of the benefit is 111.11%. This percentage exceeds the 84.2% change to the CPI; therefore, the post retirement increase is capped by the CPI.

Over the past several years, the national economy has experienced a period of relatively low inflation. As this trend continues we find that the lifetime CPI cap is starting to affect the granting of statutory post-retirement increases to retirees.

## SOCIAL SECURITY AND PERS

If you are receiving a PERS benefit and a Social Security benefit you may be affected by Social Security regulations that reduce Social Security benefits. The laws that regulate these reductions are the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP).

- GPO applies only if you are drawing Social Security benefits as a spouse or widow(er). Under this provision, your Social Security benefit may be reduced by two-thirds of the amount of your PERS benefit.
- WEP affects how your Social Security benefit is calculated if you are drawing a PERS benefit. In certain situations the formula used to calculate your Social Security benefit is modified, giving you a lower Social Security benefit.

There are exceptions to both of these laws. For more information on these provisions you can print fact sheets from the Social Security web site at [www.socialsecurity.gov/pubs](http://www.socialsecurity.gov/pubs) or contact them at 1-800-772-1213.

## BOARD APPOINTS NEW EXECUTIVE OFFICER

Following a nationwide search, the Retirement Board selected Dana Bilyeu as the new Executive Officer for PERS. Ms. Bilyeu fills the vacancy created when George Pyne retired in July 2003. She served as the PERS' Operations Officer since January 1995. Previously she was the Deputy Attorney General representing PERS in addition to numerous state agencies. Ms. Bilyeu is a past member of the National Association of Public Pension Attorneys and currently has licenses to practice law in Nevada and California.

“Dana has an excellent blend of professional experience in public pension administration and seasoned leadership qualities that are ideally suited for the position of the Executive Officer,” said Charles Silvestri, Chairman of the Retirement Board. “We look forward to working with her in her new position.”

“I am indeed honored and excited about the Board’s selection. I am ready to face the challenges of the Executive Officer position.” said Ms. Bilyeu.

## PERS’ BENEFIT PAYMENT DATES FOR 2004

The Retirement Board established a benefit payment schedule that provides for the payment of benefits on the fourth working day before the end of the month. Benefit payments are issued on this schedule and reflect payment for the month in which issued.

If you receive your payment through the electronic transfer of funds, electronic payment information will be provided to your bank or financial institution on the payment date indicated. It is up to your bank or financial institution to appropriately credit your account. If you receive payment by direct mail, your check will be in the mail on the payment date indicated. Below is the payment schedule for calendar year 2004.

<b>January 27th</b>	<b>April 27th</b>	<b>July 27th</b>	<b>October 25th</b>
<b>February 24th</b>	<b>May 25th</b>	<b>August 26th</b>	<b>November 23rd</b>
<b>March 26th</b>	<b>June 25th</b>	<b>September 27th</b>	<b>December 27th</b>

For your safety and convenience we encourage you to use electronic deposit for your benefit check. You can print the Authorization Agreement for Automatic Deposit form from our web site or contact us for the form.

## HOLIDAY CLOSURES

PERS’ offices will be closed on the following days:

November 27, 2003  
November 28, 2003  
December 25, 2003

***HAPPY HOLIDAYS FROM YOUR RETIREMENT SYSTEM***